

PAYMENTS BETWEEN NATIONS IN THE EIGHTEENTH AND EARLY NINETEENTH CENTURIES

In his work on International Trade, Professor F. W. Taussig makes some remarks about the desirability of knowing more about payments between states and public bodies in the eighteenth century than can be found in the literature generally known. In the course of studies on the origins of German "Unternehmertum" in the eighteenth century and in the beginning of the nineteenth century, I have found important material about this question which I here submit.

In the eighteenth century and in the first years of the nineteenth century two methods of payment were used in transactions between states and public bodies such as subsidies or war levies: payment by cash and payment by bills of exchange. These two methods were used alternatively as well as simultaneously. Payments by mercantile paper between merchants were much more common in the eighteenth than in the nineteenth century, and bills had more economic functions at this time than later when other credit facilities were developed. It was therefore natural that bills were resorted to for payments between states and public bodies. But since bills were instruments of merchants it was often necessary, in order to effect the payments, to transform indebtedness between states into indebtedness of private individuals to states. We find here a certain similarity to the situation of the past decade. The debts for post-war reparations (debts between states) were transformed into debts between private individuals. German firms borrowed in foreign countries; the foreign exchange thus obtained they sold by way of the Reichsbank to the German authorities and thus enabled the Reich for the time being to pay her foreign debts.

A similar development took place one hundred and fifty to two hundred years ago. But there are remarkable differ-

ences. In our day, the transactions by which individuals, not states, became debtors and creditors came into operation automatically. In the eighteenth century and in the beginning of the nineteenth century individuals acted more consciously as intermediaries between the states in winding up the transactions. In our day the balance of indebtedness between economic bodies remained in the main unchanged. As far as I can see, the same thing often took place in the end of the eighteenth and the beginning of the nineteenth century; actual payment was postponed, and the international balance was established by credit, i.e. by bill jobbing (*Wechselreiterei*). But, while the political payments of the earlier period give examples where (in accordance with theory) movements of goods were caused by political obligations, the movement of goods in other instances was caused not indirectly by the change of the price level but also in a more direct way. I shall come back to this later.

According to Büsch, the English subsidies to Prussia during the Seven Years War (1756-1763) were paid partly by bills on Amsterdam and Hamburg, partly by gold and silver. During that war other payments were made, quite different in origin from those subsidies. An Austrian scouting party, which appeared before Berlin in 1757, demanded 600,000 Taler but was satisfied with a smaller sum. The Berlin merchants' guild advanced this sum, partly in gold coins and partly in bills. When, in 1760, the city of Berlin was forced to surrender to the Russians and Austrians, it had to pay a contribution of 500,000 Taler in cash and 1,000,000 Taler by a bill, not to speak of 200,000 Taler "*douceur*." These sums, too, were procured by the merchants' guild. At first Frederick the Great did not permit the payment of the bill on maturity, but the Berlin bankers Schickler and Gotzkowsky convinced him that as merchants they were morally obliged to pay the bill under any circumstances. The king, consequently, transferred the debt to the state, and repaid it to the merchants through the two bankers. The sources do not make it quite clear whether the whole sum was paid or only the 1,000,000 Taler bill. Nor is it clear

whether the bill was a regular bill drawn on Hamburg or a promissory note. In any case, it was a bill of the merchants as a corporation. For at that time "Wechselbriefe in solidum einer für alle und alle für einen" (joint and several liability) were used. This particular bill, however, was not paid but replaced by another which Gotzkowsky drew on Hamburg, where the Berlin merchants had accredited him. But again I am unable to determine whether the Berlin merchants as a corporation gave him credentials or the individual merchants accredited him, each for the sum he had to pay himself.¹

Frederick II, on the other hand, imposed on Saxony and especially upon Leipzig high contributions, which were paid by bills on foreign places such as Hamburg. The Leipzig merchants had to use their credit for the payment of the very first contribution. The longer the war lasted the more difficult it became to raise the contributions. In 1761, 800,000 Taler were to be paid, after the king had originally demanded 1,100,000 Taler. The Berlin merchant Gotzkowsky, who was *persona grata* with Frederick II, arranged and guaranteed the payment. He received from the Leipzig merchants guild bills as security and gave his own note for 800,000 Taler to the king.² The city of Leipzig could not pay as agreed upon and, in order to be able to pay his own note, Gotzkowsky himself had to borrow funds in Hamburg. In 1762 the contribution imposed upon Leipzig was 1,100,000 Taler. Once more Gotzkowsky guaranteed the payment by a bill of exchange. This sum was paid slowly and only after extensions of time. The contribution of 1763, which consisted of 100,000 ducats and 700,000 Taler, was settled in the same way. Gotzkowsky, furthermore,

1. Friedrich Lenz and Otto Unholz, *Die Geschichte des Bankhauses Gebr. Schickler. Festschrift zum 200 jährigen Bestehen*. Berlin, 1912, pp. 70/71. Johann Ernst Gotzkowsky, *Geschichte eines patriotischen Kaufmanns*, 2d ed. 1769, pp. 57 ff., 73/74, 81 ff. Johann Georg Büsch, *Versuch einer Geschichte der Hamburgischen Handlung*, Hamburg, 1797, pp. 114 ff.; idem, *Geschichtliche Beurtheilung der am Ende des 18. Jahrhunderts entstandenen grossen Handelsverwirrung*, in *Sämtliche Schriften*, vol. 7, Vienna, 1816, pp. 333 ff.

2. In the decisive passage, Gotzkowsky, p. 102, there is undoubtedly a misprint.

guaranteed a contribution of the district of Leipzig and of the Saxon "Bergstädte" (Annaberg, Schneeberg, etc.). He advanced all these sums and procured the money by using his own credit.³

We have now to study the economic consequences of the political payments made by bills of exchange. As other credit possibilities had not been developed, credit expanded by means of bills only. The credit system in the eighteenth century was based upon bills. Banker A, for example, in Amsterdam allowed Banker B in Hamburg to draw bills on him and vice versa; or brokers induced important bankers to create promissory notes on which a considerable commission was charged. Büsch and Parish have described these things very clearly. The procedure was not dangerous as long as credit expanded along with ordinary business. But the credit expansion which accompanied political payments was identical with credit inflation, since ordinary business did not grow correspondingly. The credit inflation was followed by a boom which necessarily broke down eventually. As the system of bills of exchange (not to say "bill jobbing") was very complex and interwoven, a breakdown was inevitable whenever any one important firm collapsed. And this was what happened in 1763 when the banking firm of de Neufville Brothers in Amsterdam closed its doors.

We find a quite analogous situation in the Revolutionary Wars of the 1790's. Great Britain again paid larger subsidies to Prussia. We may refer to Macleod's⁴ description of the

3. Since public and dynastic finances were identical in the eighteenth century it is difficult to distinguish between private payments of the princes and public payments of the state. I feel, however, that it is correct to regard the so-called subsidies of England to the different Landgrafen of Hessen, for which these princes delivered Hessian regiments to the British Government, as private payments, as I would also the many loans which they negotiated with the Danish court. It is remarkable that a considerable part of these "subsidies," payable by the English, were invested in England. The subsidies lead, therefore, to foreign investment as seen from the standpoint of the receiver. Egon Conte Corti, *Der Aufstieg des Hauses Rothschild 1770-1830*, Leipzig, 1927, p. 20.

4. *The Theory and Practice of Banking*, 5th ed., London, 1892, vol. i, pp. 518 ff.

reaction of these political payments on the English economy. According to the treaty of The Hague, the English subsidies were payable in Berlin in gold at the rate of 6 Reichstaler per pound sterling. This was very unfavorable for England, since gold was then scarce, while silver, especially Spanish piastres, was abundant. Later, therefore, silver was sent to Hamburg; part of this was shipped on the Elbe to Berlin and part was exchanged into Friedrichs-d'or. The London bankers Harman, Hoare & Company were charged with the transfer of the subsidies and they entrusted the Hamburg end of the business to the firm of John Parish.⁵ Another part of the subsidies was paid by bills on Hamburg, which at first were ready at hand because the Continent in these years was continuously indebted to England for large deliveries of goods. But in the long run the sums thus available were not sufficient to satisfy the political needs and, as during the Seven Years War, bill jobbing was substituted. Hamburg bankers gave bill credit to their English friends, thereby creating means of payment on Hamburg. In due time they drew on England themselves. These bill credits were often extended and only slowly settled, and they were the cause of many critical business situations.

The above-mentioned Hamburg firm of Parish was again charged in 1809 with the transfer of the English subsidies to Austria. The founder of the firm, old John Parish, had already retired from the business, and his sons, John and Richard Parish, managed it. After the battle of Wagram, John Parish, Jr. advanced his own money to the Austrian Government; that is, he discounted the English subsidies which had to go through his firm. A large part of the English subsidies of this year was sent in silver and in bills from Hamburg to the bankers Eichborn & Company in Breslau, who in their turn sent it to Austria. This Breslau firm, which we shall meet again presently, had already in 1805 received considerable sums of English silver for Austria,

5. Dr. Richard Ehrenberg, *Das Haus Parish in Hamburg*, 2d ed., Jena, 1925, p. 62.

which it had kept in safe custody and then transported to Cracow under military escort.⁶

We return to the 1790's. The political payments during the Revolutionary Wars already described were only the beginning of numerous and, for those days, enormous political payments. We shall begin with the theoretically most interesting case, the payment of the Spanish subsidies to France. It was accompanied (exactly as theory would lead us to expect) by movements of commodities which were brought about directly, not merely indirectly, by changes of the price level.

Spain had obligated herself to make yearly payments of 72,000,000 francs to Napoleon, but was unable to pay even the first installment of 32,000,000 francs because the connection with her American resources was cut by the English blockade. Silver to the amount of 350,000,000 francs was piled up in the treasury in Mexico. The French speculator Ouvrard (born 1770) made these treasures available for the Continent, in spite of war and blockade, by several ingenious commercial and credit transactions. In order to gain the confidence of the French Government he first advanced the installment of 32,000,000 francs and then, in September, 1804, went to Spain. It is not possible to describe the details of his clever negotiations with the Spanish Government. He succeeded in gaining confidence by advancing further amounts of the subsidies besides the above-mentioned 32,000,000 francs, and finally concluded an important contract according to which a monopolistic company was founded whose members were Ouvrard and the king of Spain. Among other tasks and privileges the company was charged with the transportation of the Spanish gold and silver coin from Mexico to Europe. For this purpose Ouvrard received, after the conclusion of the contract, bills on the Mexican treasury amounting to 52,500,000 piastres or 262,500,000 francs. He then tried to get English letters of safe conduct,

6. Dr. Richard Ehrenberg, *Grosse Vermögen, ihre Entstehung und ihre Bedeutung*, 1st vol. 2d ed., Jena, 1925, pp. 117, 66/67; Moritz-Eichborn, p. 121/124.

thinking that the English Government would consent since there was a shortage of coin at that time. Contrary to expectations, however, Pitt at first would not consent to this scheme. He correctly saw that the equivalent of these silver deliveries would eventually have to be paid by English firms to Spain and that the scheme would consequently serve ultimately to the advantage of France. But the banking house of Baring and the East India Company convinced him that the profit for England would be greater than that for Spain and France, and so four English frigates brought 14,000,000 piastres or 60,000,000 francs from Mexico to England. The equivalent of these 14,000,000 piastres went from the English receivers to Hope & Company in Amsterdam, from there to Ouvrard, from Ouvrard to Spain and finally to the French Government. But Pitt would not permit further shipments, and Ouvrard had to devise other ways.

Shortly after the conclusion of his contract with Spain, Ouvrard had become associated with Messrs. Hope & Company in Amsterdam, then the most important bank in Holland and one of the largest in the world. It was managed by Henry Hope and P. C. Labouchère, two royal merchants. Ouvrard had made a contract with the firm in 1805 which put him entirely in their hands. They received his bills on the Mexican treasury. Since further shipments of silver were impossible, they built up an organization in America which was to cash the bills in Mexico, purchase goods in America and consign them to Europe. A trustee was sent to Vera Cruz who cashed the bills and shipped the piastres to a port in the United States in ships built for this purpose. The head of the organization, established in Philadelphia, entrusted respectable American merchants with this money. They bought cotton, tobacco, coffee, sugar, and so on, and consigned them to European firms named by Messrs. Hope. They then drew on the receivers and handed over the drafts to the American agent of Messrs. Hope. By means of these drafts Messrs. Hope were able to realize the value of the consignments. They then credited Ouvrard who in his turn credited the Spanish Government. Thus the Spanish subsi-

dies to France were paid partly in silver via England and Holland, partly in silver from Mexico to America and from there in goods via Holland. Not even the Rothschilds equaled the ingenuity which Ouvrard displayed in these transactions.⁷

The remittance of Prussian contributions after 1806 was much simpler. These payments were handled in much the same way as the political payments of the second half of the eighteenth century. The transfers were managed by the Seehandlung, which in the beginning of the nineteenth century had developed from a commercial firm into the banker of the Prussian state. The Seehandlung was supported by other bankers.

The first political payments were to be paid before the peace of Tilsit. In 1806, Berlin, for example, was charged with a contribution which it tried to raise by a special tax. But the whole sum could not be mobilized in cash. The French employee in charge, therefore, declared himself ready to accept bills of first rate firms for the unpaid balance. Seven months bills were therefore drawn by leading Berlin houses which, in their turn, received *inter alia* bills of other Berlin firms as security. Berlin negotiated, furthermore, a loan of about 300,000 Taler in Hamburg. On the basis of this loan some of the biggest bankers of Berlin gave security bills, for which they received four per cent commission and bills, tho not to the full amount, of forty-eight other Berlin merchants as security.⁸

In January, 1807, Napoleon imposed upon the district of Breslau⁹ a contribution of 18,000,000 francs in which subsequent requisitions were to be included. The contribution, therefore, was paid partly in money and partly in kind. The various estates were charged with the payment. The money came in only very slowly, and so the great Breslau bankers Eichborn & Company tried to get a loan in Hamburg or

7. G. J. Ouvrard, *Mémoires sur sa vie*, 4eme ed., Paris, 1827. Otto Wolf, *Die Geschäfte des Herrn Ouvrard*, Frankfurt am Main, 1932; Vincent Nolte, *Fünfzig Jahre in beiden Hemisphären*, Hamburg, 1853.

8. Lenz, pp. 237 ff.

9. Kurt Moritz-Eichborn, *Das Soll und Haben von Eichborn & Co. in 125 Jahren*. Breslau, 1903, pp. 132 ff.

Amsterdam. But unlike Berlin the Silesian estates had no success. Eichborn & Company, therefore, came to the rescue with their own funds, advancing, for example, to the towns of Landshut and Waldenburg the necessary amounts for several years against bills, charging them six per cent interest. In order to secure the payments in kind, exports of linen, cloth, leather and wool from Silesia were forbidden, and in this way the stream of goods was diverted into the desired direction. The furnishers of the commodities were paid by mortgage bonds (*Pfandbriefe*) and so-called *Pfandbrief-Anteile* for 5, 10 and 20 Taler, issued by the Silesian *Land-schaft*, which at that time was the establishment entitled to give mortgages. These *Pfandbriefe* were to be accepted in payments at all public offices. They were virtually paper money "covered" by mortgages.

In 1807 Prussia began with her payments to France. At first only small amounts for various purposes were involved, until Prussia and France in the Convention of Erfurt in 1808 finally agreed upon the payment of 120,000,000 francs. The French authorities at the time when the first payments were made declared their willingness to accept good bills on large centers. Only the merchants of Berlin, Breslau, Königsberg, Memel, Elbing and Stettin were, of course, able to advance the money and to supply the bills, for which they received *Pfandbriefe* as security. Further amounts were collected in cash or obtained by loans. These loans also were secured by *Pfandbriefe* and cash was transferred to the French authorities. The Prussian Government had pledged itself to repay the advances at a fixed date but was unable to carry out its agreement on time.

The 120,000,000 francs which were to be paid according to the Convention of Erfurt were supplied to the French in the following way: 50,000,000 francs by merchants' "Promessen," 70,000,000 by mortgage bonds. By "Promessen" were understood promissory notes of more or less long maturities. They were assessed upon the merchants of the Prussian commercial towns. At first, Elbing and Stettin were to deliver promissory notes of 2,000,000 francs each, Königsberg of 12,000,000, Berlin of 15,000,000 and Breslau

of 18,000,000. Later these amounts were raised to a total of 50,000,000 francs. The time of payment of the promissory notes was spread over several months. The Prussian Government pledged itself to procure the funds in due time. They were to be raised by taxes, especially on plate and the like, which amounted to confiscation of silver table ware (Edict of 1809). But the financial position of Prussia was so bad that the second and further installments remained unpaid and so the merchants had to advance the money. This was done by bill jobbing. I give the following examples: Messrs. Deutschmann & Company in Breslau drew on Eichborn & Company, Breslau, payable in Amsterdam. Eichborn & Company in their turn drew the same amount on Deutschmann & Company, Breslau, payable in Hamburg. These bills would be discounted, since both the drawer and the drawee had the reputation of solvency. Gradually the Prussian Government procured the equivalent amounts. The procedure was that certain banks with which the Prussian Government worked, e.g. Eichborn & Company, received money in order to buy back the bills which became due. But many bills had to be extended, new promissory notes and drafts being given to the Government by the merchants.

Finally we shall consider the rôle the Rothschilds¹ played during the Napoleonic era in transferring political payments. While they did not invent new ways, they applied the usual methods with the utmost boldness and with intelligent adaptation to the necessities of the moment. The situation they had to face was the following. An English army under the command of the Duke of Wellington was fighting in Spain against France. Wellington needed money very badly. Sometimes he was unable to pay his soldiers for months. The English Government tried to send money from England to Portugal, but this was almost wholly prevented by French privateers and the frequent storms in the Bay of Biscay. Wellington's practice was to obtain funds by drawing on the British treasury, but he could discount the drafts only at a great cost with unscrupulous bankers in Malta, Sicily and

1. Ehrenberg, vol. i, pp. 57 ff.; Corti, loc. cit., pp. 125 ff., 184.

Spain, which aroused the indignation of the officials responsible for the British finances. At this juncture Nathan Rothschild, the London resident of the five brothers, gave a new turn to the situation. He had bought cheaply drafts of Wellington on the treasury and in this way had learned about the matter. Now he undertook to provide Wellington with money, first on his own account and risk, later for the account of the British Government.

The Continental System, as is generally known, was circumvented by permitted smuggling from England via the Channel to France. The import of gold, silver and coin into France was, among other things, allowed in certain quantities. On the French side of the Channel was another of the brothers Rothschild. To him Nathan sent cash. The receiving Rothschild, usually James, transferred it to Paris bankers by buying their bills. These Paris bankers again drew on bankers in Spain, Sicily and Malta, and smuggled the papers into Wellington's hands, mostly thru Jewish tradesmen. For a thoro understanding of these transactions it must be assumed that these bankers gave credit to the Paris bankers and drew on these as the occasion required. This supposition is undoubtedly correct, altho it cannot be proved. Napoleon, who was almost completely ignorant of financial matters, was pleased by the imports of coin into France, and did not suspect at all that these funds merely passed thru France and served to finance the war against himself. What the Rothschilds did was to use their connections with boldness and cleverness in order to reverse the flow of payments.

This reversing of the direction of the stream of payments is an essential point of Nathan Rothschild's commercial conception. During the wars of 1813-1815 it again played an important part in the remittance of the subsidies. England paid during the period from 1813 to 1815 more than £15,000,000 in subsidies to the continental powers. In 1813 the transfers took place by sending silver or coin, and by accepting drafts on London. The shipments of precious metals and coin were, of course, expensive and risky. Heavy losses were unavoidable. The continuous drafts on London

on the other hand depressed the English currency, which was quoted at more than 30 per cent below par. Many of the bills on London could hardly be negotiated.

In this situation Nathan Rothschild again took a hand at the end of the year 1813. He proposed to make the subsidies payable on the Continent instead of in England. Means of payment were procured in various ways. Coin was bought in the whole of Europe, bullion was coined in England and on the Continent, even foreign money was coined in England, bills on continental centers were bought, and long-term bills on England were sold as before whenever a buyer could be found. The subsidies were now paid on the Continent, in cash or in bills on continental centers such as Hamburg or Berlin.

Wellington, who was advancing from Spain, was financed in a similar way, especially by the purchase of French coin which was plentiful on the Continent but was scarce in England because of the Continental System. James Rothschild even succeeded in procuring French coin in Paris which he smuggled into Holland, whence it was shipped to Wellington who was advancing from the west, and who was thus enabled to make payments in French currency. The sums which were paid and the exchange rates of the various currencies suggest that the Rothschilds used their credit with the continental bankers. This means that, as in the twentieth century, in the payment of reparations private indebtedness was substituted for public indebtedness. Political payments of about £20,000,000 went thru the hands of the Rothschilds between October, 1811 and October, 1816.

In Berlin, however, and in 1814 also in Vienna, drafts were drawn on the English treasury, in addition to those which Blücher, in emergencies, sometimes drew on London on his own authority and sold at a loss in Elberfeld. But as the Prussian Government had in the meantime also entered into relations with the Rothschilds and sold the drafts to this house, which was also discounting the subsidies, Blücher's operations did not affect the ingenious method of effecting the payments and did not disturb the Rothschild plan.

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